



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING



JENNIFER M. GRANHOLM
GOVERNOR

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

December 20, 2007

MEMORANDUM

TO: Members of the State Board of Education
FROM: Michael P. Flanagan, Chairman
SUBJECT: Approval of the Revised Report to the Legislature on Public School Academies

Attached are the pages from the draft Report to the Legislature that have been revised pursuant to the Board's discussion at the December 11 meeting. In each case, staff noted the issue and its resolution. Once approved, the report will be posted on MDE's website so that readers have easy electronic access to full-color charts and attachments. Following are the revisions that have been made:

- 1) The policy section was not titled "Legislative Recommendations." Page 47 now has that title (and the Table of Contents reflects it).
- 2) The policy section did not recommend rule-making authority. Page 50 now recommends rule-making authority.
- 3) Ed YES, AYP, and NCLB Phase charts were based on preliminary data, which changed with final high school data. Figures 38, 39, 40, 45, 46, 60 and 61 have been updated. Slight changes in percentage resulted, but text explanations all hold true.
- 4) Some charts placed "Host" and "Non-PSA" columns in different order. Figures 9, 12, 14, 41, and 42 have been revised to match other charts.
- 5) A typo on page 39 miscounted the number of "Functions" in the table. Page 39 text has been revised.
- 6) The report did not note that MDE has asked the Legislature to approve funds for additional staff. Page 47 now notes the request.

It is recommended that the State Board of Education approve the Report to the Legislature on Public School Academies as attached to the Superintendent's memorandum dated November 26, 2007 with changes as attached to the Superintendent's memorandum dated December 20, 2007, and approve its transmittal to the Legislature.

STATE BOARD OF EDUCATION

KATHLEEN N. STRAUS – PRESIDENT • JOHN C. AUSTIN – VICE PRESIDENT
CAROLYN L. CURTIN – SECRETARY • MARIANNE YARED MCGUIRE – TREASURER
NANCY DANHOF – NASBE DELEGATE • ELIZABETH W. BAUER
REGINALD M. TURNER • CASANDRA E. ULBRICH

608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909
www.michigan.gov/mde • (517) 373-3324

Proportionately more PSA students are in Grades K-5, as **Figures 7 and 8** show—57.4% compared to 42.9% for host districts and 40.7% for non-PSAs. At the same time, the number of PSA high school students has more than doubled in the last five years, and the most frequent pattern of expansion is to amend existing contracts to add middle or high school grades. Of 21 grade level additions established by contract amendment for the 2007-08 school year, 13 added middle school grades, five added high school grades, and three added elementary grades.

Ethnicities of PSA students closely resemble the ethnic mix of the 17 urban host districts that house three-quarters of them, with African American students making up more than half the student population in both cases. Caucasian students make up 34% of PSAs and 29% of urban hosts. Hispanic, Asian, and other races constitute the balance. This approximately shared profile differs sharply from the ethnic mix of all non-PSAs, where 74% of students are Caucasian and 18% African American. **Figure 9** displays the ethnic proportions of PSAs, hosts, and non-PSAs.

Figure 7: 2006-07 Student Enrollment by Grade Range

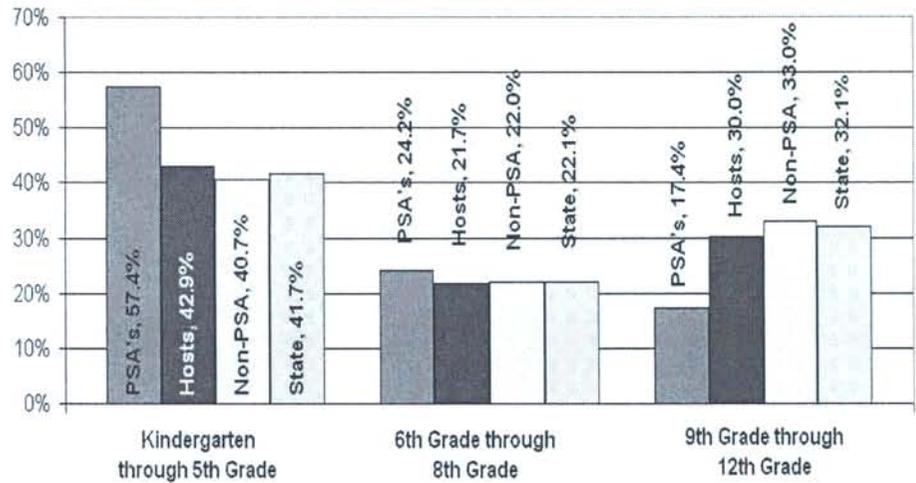


Figure 8: 2006-07 Student Enrollment by Grade

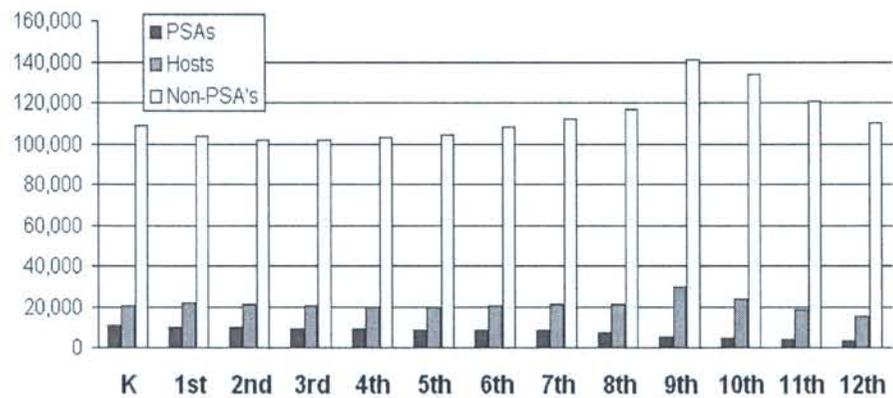
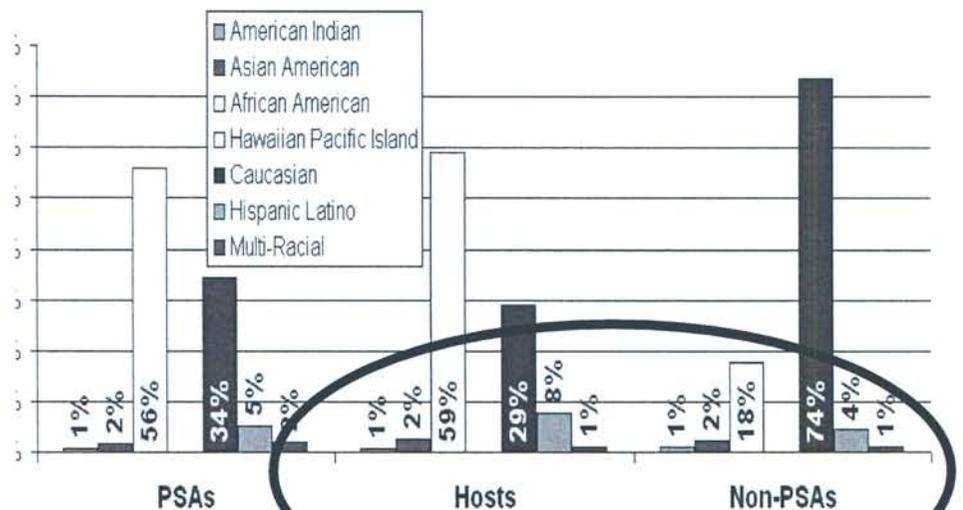


Figure 9: 2006-07 Student Enrollment by Ethnicity



The percentage of special education students attending PSAs continues to remain lower than their host district counterparts in MDE's December 2006 special education count, as shown in **Figure 12**. Individual PSAs range from zero to 58%, plus one PSA with a 100% special education population.

Figure 13 divides individual PSAs ranked by special education percentage into ten equal groups and displays each cluster's percentage to illustrate the wide range of PSA experience.

Roughly equivalent proportions of students of different disability types are reported for PSAs, hosts, and non-PSAs. This data is displayed in **Figure 14**.

Figure 12: December 2006 Students with Disabilities

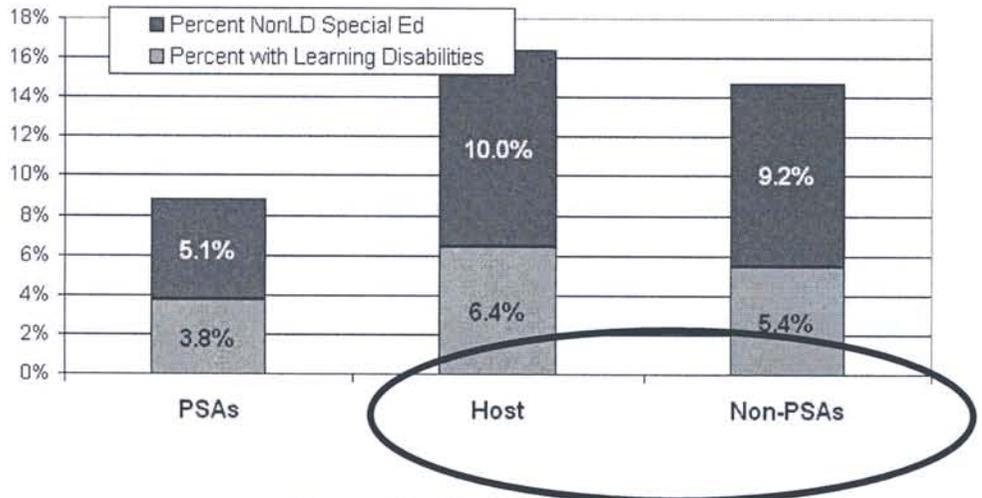


Figure 13: December 2006 Range of PSA Special Education Percentages

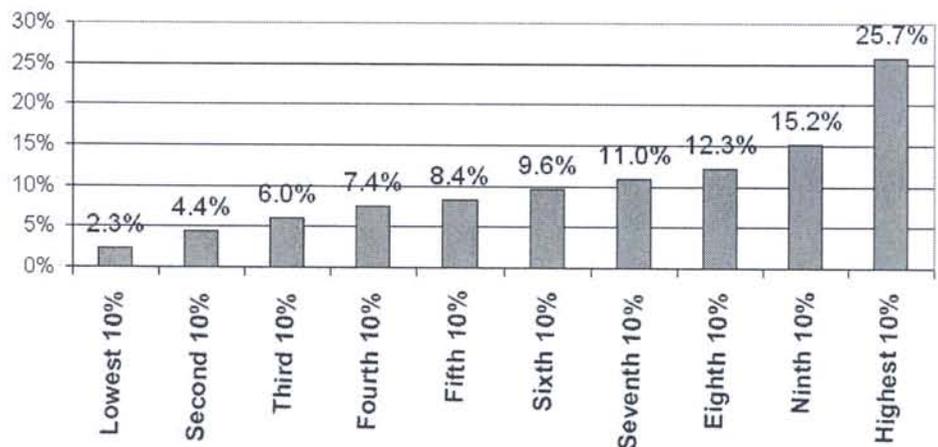
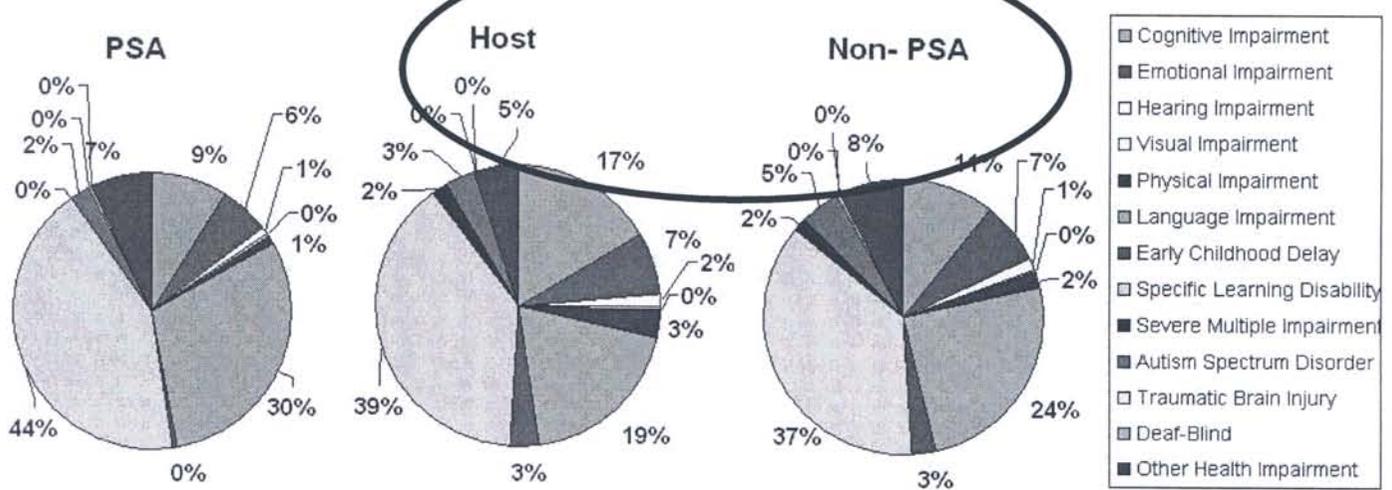
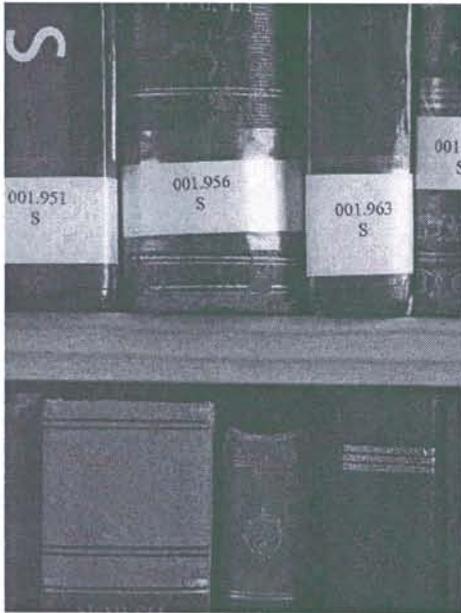


Figure 14: December 2006 Percent of Students by Type of Disability





Note: To make AYP, schools must meet the following requirements:

- 1) Attendance rate (elementary and middle schools) or graduation rate (high schools) must be at a minimum of 85% for all students and subgroups.
- 2) Participation rate (the percentage of students who are tested using MEAP) must be at a minimum of 95%.
- 3) The school must meet established proficiency targets in ELA and Mathematics for all students. The school can also meet this requirement by reaching "safe harbor," which is accomplished by reducing the previous year's percentage of students identified as "not proficient" by 10% in each subgroup.

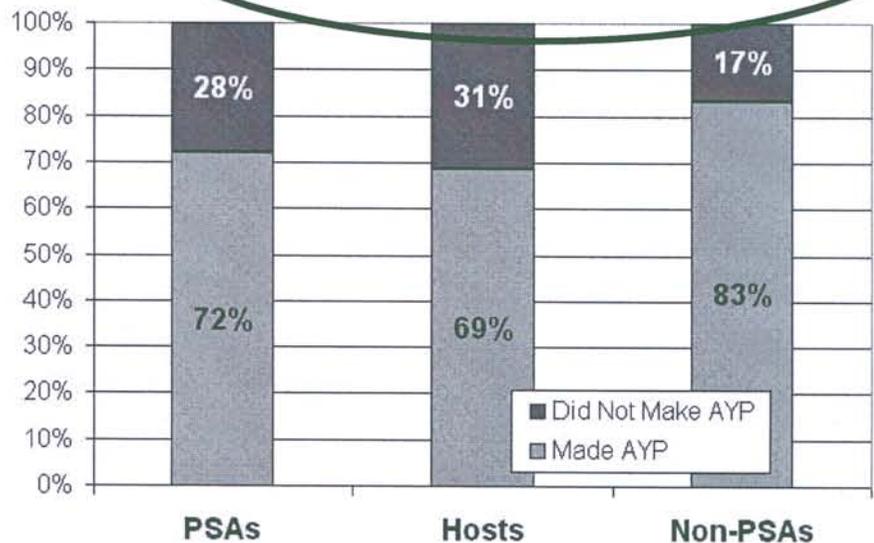
Adequate Yearly Progress and Phases of Improvement

"Adequate Yearly Progress" has been defined by federal NCLB law as demonstrating that a school is on track toward having all of its students meeting state proficiency standards by 2013-14. **Figure 38** identifies the percentage of schools that made AYP for PSAs, host districts, and non-PSA public schools in 2006-07. This comparison reveals that charter schools made AYP at a higher rate than host districts. Both charter schools and host districts made AYP at lower rates than non-charter public schools.

If a school does not make AYP for two consecutive years, it is identified by NCLB as needing improvement. Michigan designates these schools as "High Priority." If they qualify for Title I funds, they become eligible for additional financial assistance to support the schools' efforts to increase student success. If they continue to fail in making AYP, their improvement status moves to the next level. When schools are identified for improvement, they also become subject to additional requirements depending on the level of the school improvement status. Such requirements range from allowing for school choice (Phase 1) to restructuring school governance (Phase 4-6). Schools without enough available data are placed in AYP Advisory status (99).

Figure 38: 2006-07 Schools Making Adequate Yearly Progress

NEW CHART





NEW
CHART

Figure 39: 2006-07 NCLB Phases of Improvement

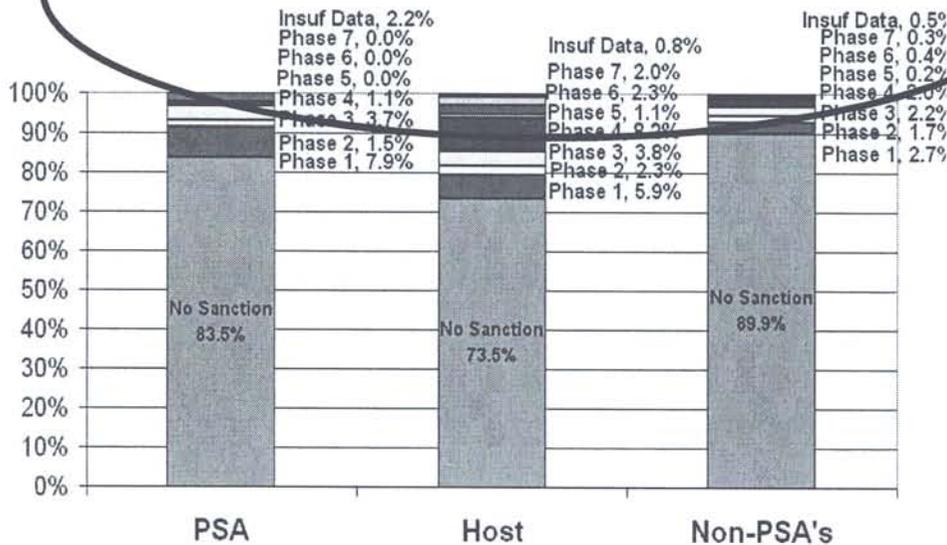


Figure 39 indicates that a higher percentage of charter schools were “Not Identified for Improvement” than host districts in 2006-07; even more non-PSAs were “not identified.” Analysis also indicates that there were no charter schools in Phases 5, 6 or 7 for 2006-07, while 5.4% of host schools and .9% of non-charter public schools were within these three advanced phases of improvement. Authorizer efforts at “triage” and technical support for PSAs in NCLB sanction phases have so far resulted either in turn-around or in school closure before that point.



Education YES! School Report Card Grades

Since 1990, Michigan law (Public Act 25 of 1990) has required that all Michigan public schools receive a school report card; currently, that report card is called Education YES! It is posted electronically on the MDE website, allowing parents and students to search their own and other schools' overall performance. Each school's composite, or final aggregate grade, is calculated using a variety of weighted factors. Achievement scores (ELA and Mathematics for elementary schools; and ELA, Mathematics, Science, and Social Studies for middle and high schools) represent approximately two-thirds of a school's composite grade. The additional one-third is determined using a self-assessment which schools complete by rating their school on 40 performance indicators developed from Michigan's Comprehensive School Improvement Framework. These indicators include Teaching for Learning, Leadership, Professional Learning, Community Involvement, and Data and Information Systems.

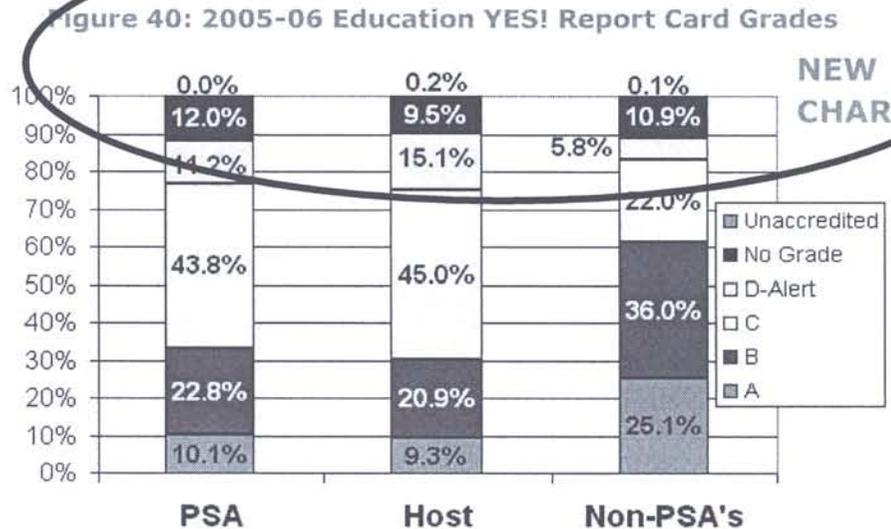
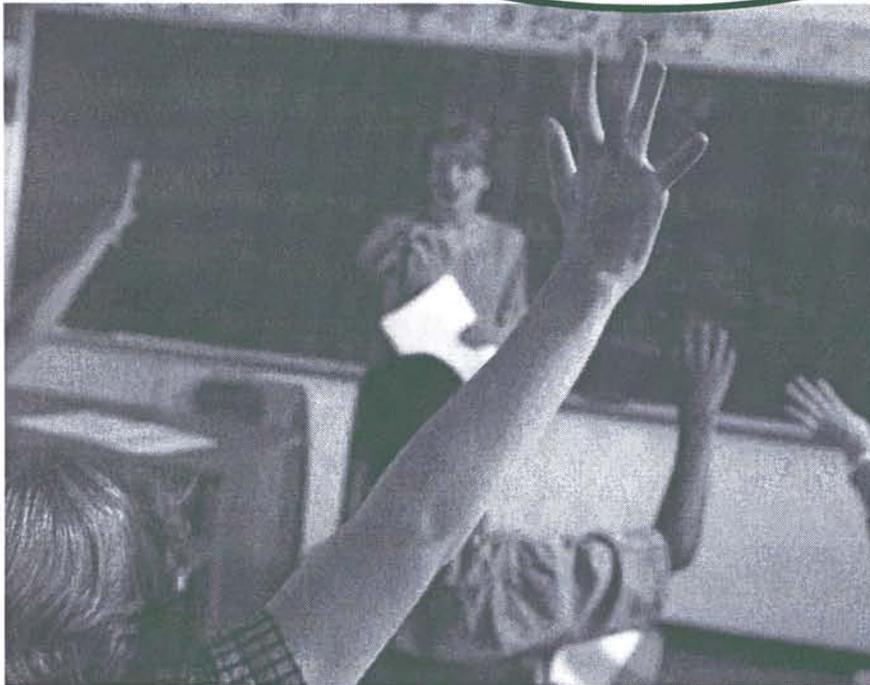
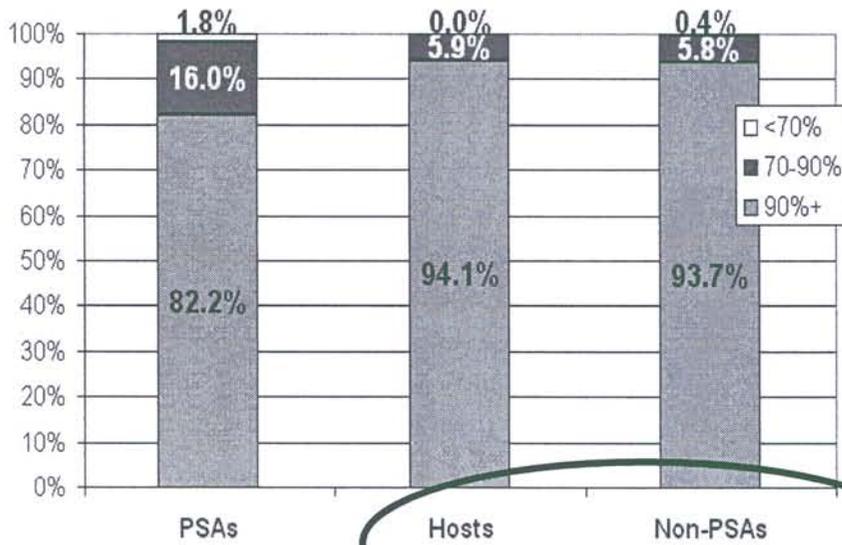


Figure 40 provides a comparison of Education YES! School Report Card grades for 2005-06. Charter schools that received report cards received grades of "A" or "B" at higher rates than host districts and lower rates than non-charter public schools.

Figure 41: 2005-06 Attendance Rates



Attendance and Graduation Rates

Both federal NCLB criteria and the state law that mandates this annual report to the Legislature specify that attendance and graduation rates should be tracked. **Figure 41** provides an analysis of attendance rates for charter schools compared to that of host schools and non-charter public schools for 2005-06.

Each district (PSA or LEA) was identified within one of three groups:

1. Schools with an attendance rate below 70%.
2. Schools with an attendance rate between 70-90%.
3. Schools with an attendance rate above 90%.

The PSAs and LEAs in each group were counted to calculate percentages. They are not weighted by student count.

More PSAs experienced lower attendance rates in 2005-06 than did non-charter LEAs or host districts.

Graduation rates are not reported immediately following a school year. Schools report these rates after considering summer graduations and promotions. This delay results in the Center for Educational Performance and Information (CEPI)'s ability to publish data only near the end of the following year, so 2005-06 data are the most recent data available for the comparison in **Figure 42**.



Buildings with graduation rates were separated into the same groups used to analyze attendance data. The building counts in each group were used to calculate the percentages.

The 2005-06 data indicate that both charter schools and non-PSAs experienced a higher graduation rate than did host schools. Non-PSAs graduated higher percentages than did PSAs.

Figure 42: 2005-06 Graduation Rates

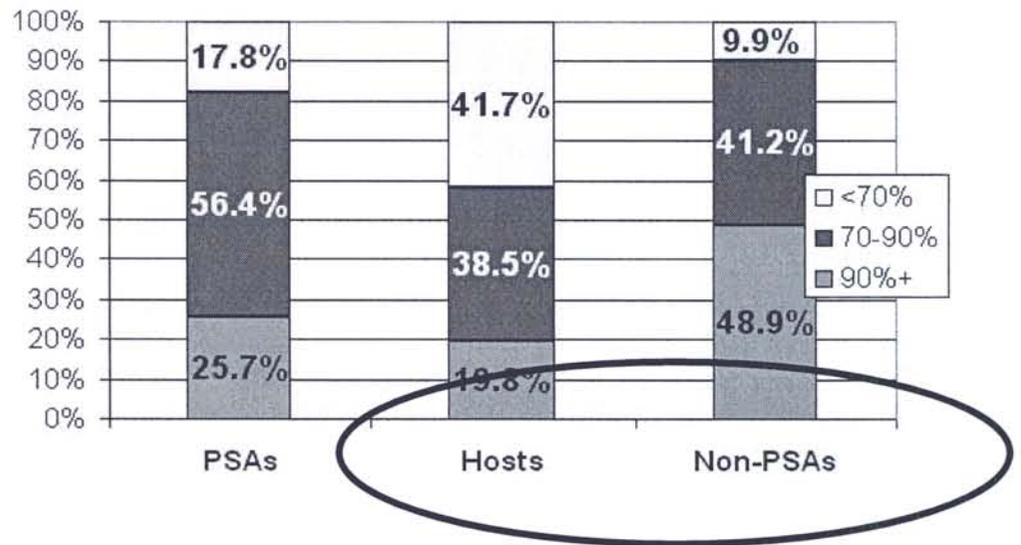




Figure 45 examines the proportion of the PSAs chartered by each authorizer and receiving AYP designations that achieved AYP during 2006-07. Nine authorizers' portfolios contain larger percentages of schools making AYP than did host district schools. Four portfolios also surpass the non-PSA average statewide.

The proportions of PSAs in an authorizer's portfolio that are in different phases of NCLB sanctions are displayed in **Figure 46**. Nine authorizers' portfolios contain larger percentages of schools not in phased sanctions (and also not in advisory status) than do host districts in the aggregate. Five of those portfolios also surpass the non-PSA proportion of unsanctioned schools.

Figure 45: 2006-07 Adequate Yearly Progress for PSAs Chartered by the Same Authorizer

NEW CHART

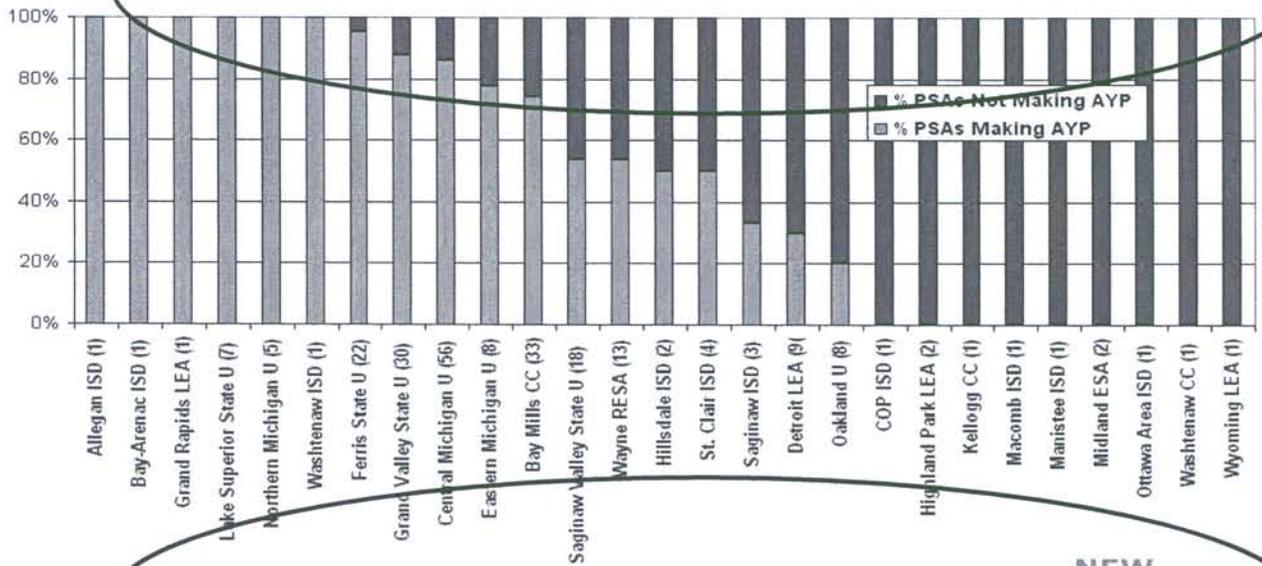
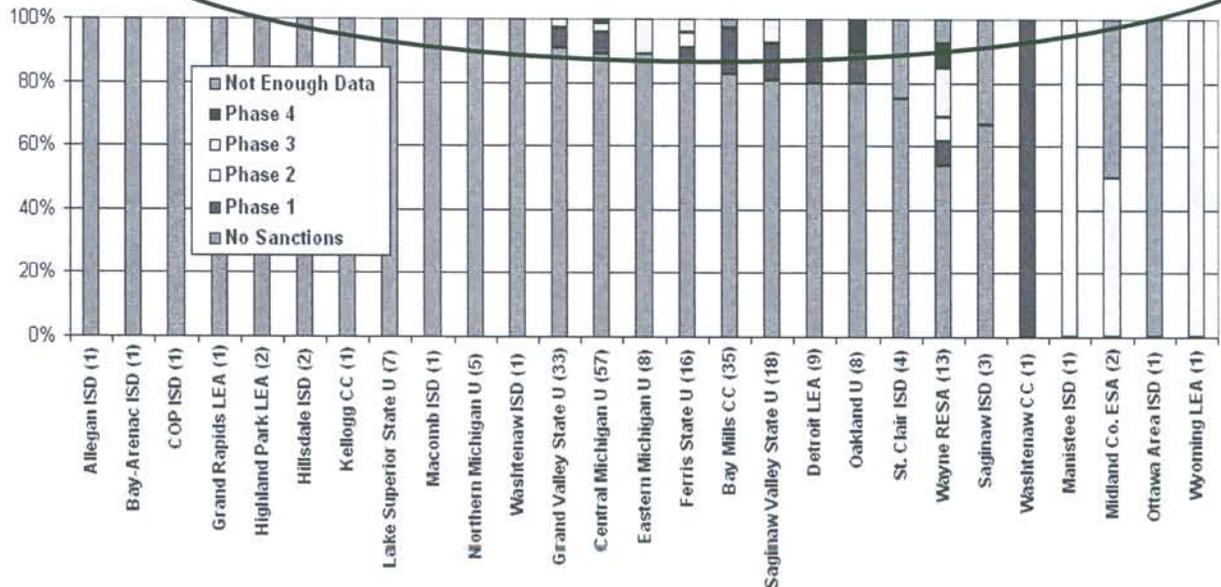


Figure 46: 2006-07 NCLB Phases for PSAs Chartered by the Same Authorizer

NEW CHART



Expense Ratios

School accounting divides expenses into three broad categories:

1. **Instruction**
teaching of students in classrooms, including special education.
2. **Instructional Support – Support Services**
including speech therapy, counselors, nurses, library, etc.
3. **Administrative Support – Support Services**
including business operations, facility operations, and maintenance.

Availability of Expenditure Information for PSAs

Another crucial piece of the financial picture of charter schools is how they spend the funds available to them. Some people are under the misperception that details of school expenditures are not available for PSAs because the non-profit or for-profit ESPs that operate many of them do not have to disclose as much financial information as traditional LEAs. While it is true that the management companies themselves are not, for instance, subject to Freedom of Information Act (FOIA) requirements or CEPI's Financial Information Database (FID) reporting requirements, the PSA boards that hire them are subject to both. The PSAs must require the ESPs that operate their schools to comply with financial disclosure requirements.

Traditional LEAs spend funds directly and distribute expenditures over **"functions" or purposes (See examples in Column 1 below). They then show through six "object codes" (see Columns 2-7) how** the money was spent for that purpose. The resulting grid looks like this:

Functions	Salaries 1xxx	Benefits 2xxx	Purchased Services 3-4xxx	Supplies 5xxx	Capital Outlay 6xxx	Other 7-8xxx	Total
Instruction 1xx							
Support Services 2xx							
Community Ed 3xx							
Facility Acquisition 45x							

Because the mechanism by which PSA boards hire their ESPs is contractual, any payments to the ESP for use on the school's behalf are recorded in the "purchased services" column. If this were the total reporting required, it would indeed be true that much of the PSA's expenditures would be masked as ESP transfers. However, FID reporting requirements specify that if more than half of a school's expenses are "purchased services," the school must file an additional "ESP Detail" report which takes the total of "purchased services" and spreads them out over the other object codes (columns) to show how the contractual funds were spent. By combining both reports, the full picture of PSA spending is available in identical detail to traditional LEAs.

Comparing Operating Expense Ratios Judiciously

Comparing the percentages of Current Operating Expenses (COE) that PSAs and traditional LEAs devote to instruction, instructional support, and administration is difficult since facility lease or purchase must come out of PSA operating expenses. On the other hand, lunches, transportation, athletics, and co-curricular activities are part of most traditional LEAs, but not all PSAs. In addition, as noted in the revenue section, the "pies" being split up here are different sizes; some PSAs receive 15-20% less per pupil revenue. Given those cautions about comparisons, on average, **Figure 52** illustrates that PSAs spend lower percentages of their expenses on instruction.

Figure 52: 2005-06 Percentage of Operating Expenses Spent on Instruction

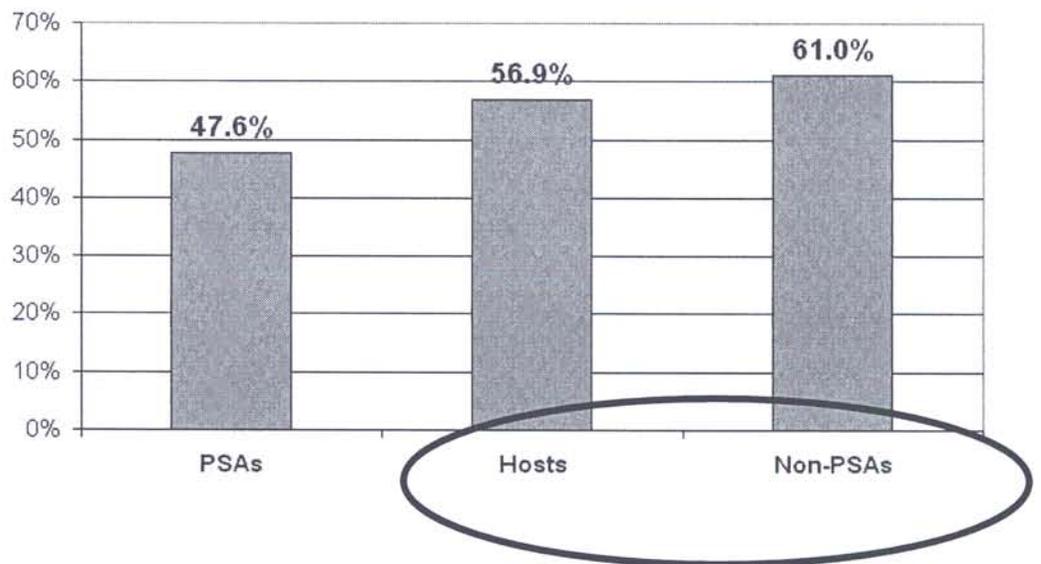


Figure 60: 2006-07 AYP for PSA Boards Hiring the Same ESP

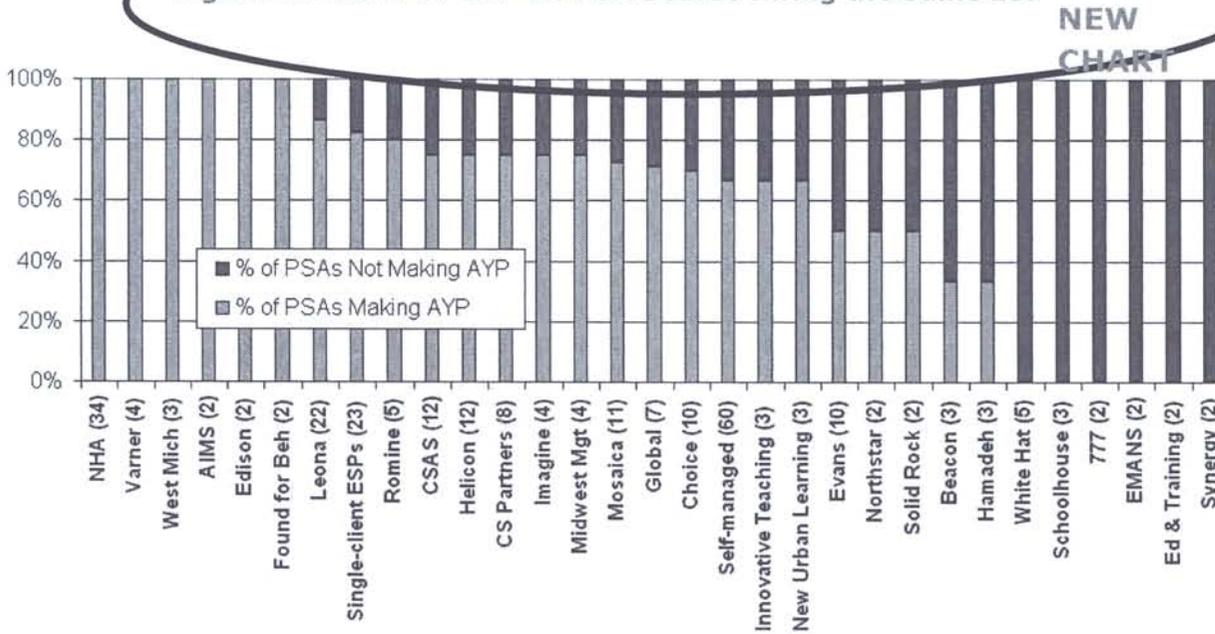
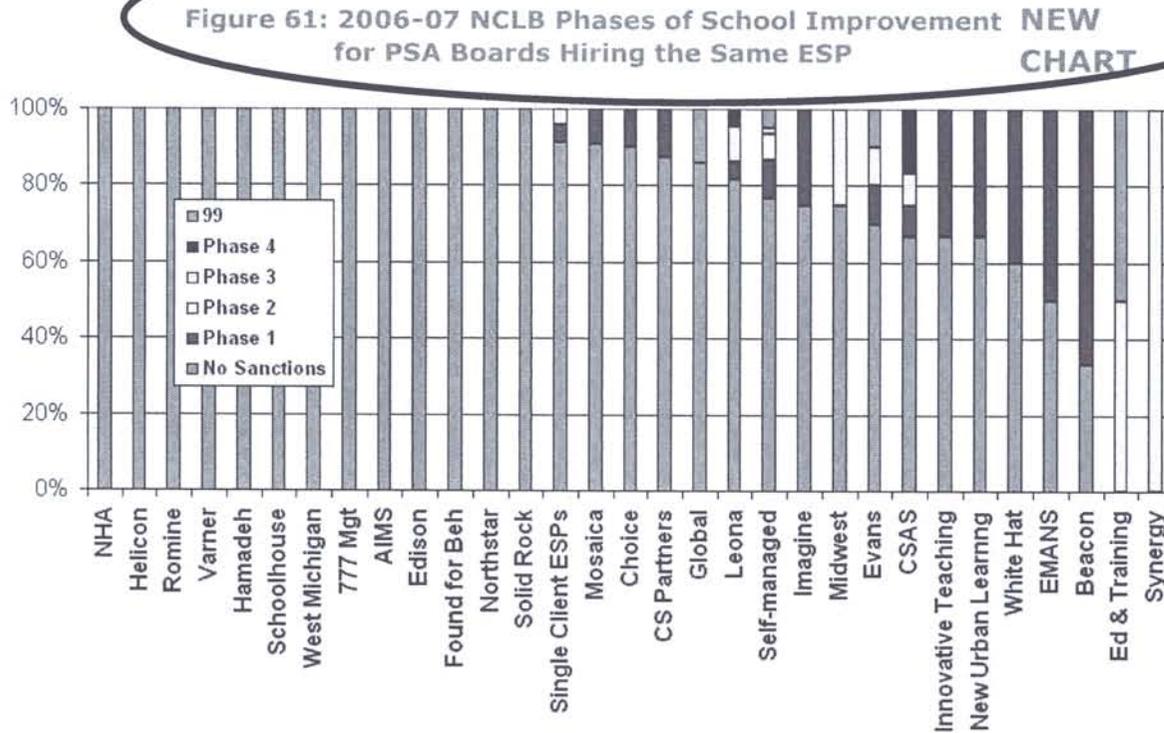


Figure 60 continues the examination of clusters of PSAs whose Boards have hired the same ESP by analyzing what proportion made AYP during the 2006-07 school year. Figure 61 displays the same clusters by the proportion which were in various phases of NCLB sanction during the 2006-07 school year.

Figure 61: 2006-07 NCLB Phases of School Improvement for PSA Boards Hiring the Same ESP



PROGRESS ON CHARTER SCHOOL ISSUES

During the 2006-07 school year, significant progress has been made on several issues discussed in last year's Report to the Legislature. For **one issue** initially thought to require legislative action (record retention) MDE has found resolution through administrative means. Other issues (**rulemaking authority**, wind-up/dissolution and ESP oversight) **show progress, but** continue to require legislative action. **MDE has requested additional staff for its Public School Academy Unit as an enhancement in the Fiscal Year 09 Executive Budget.**

Student and Business Records after PSA Closing

The Issue: When a PSA closes, statute does not specify a uniform repository for its business records or for student records that are not transferred to a receiving school. Students in search of a transcript in future years, or employees in search of proof of employment, for instance, find it difficult to track down the documentation they need.

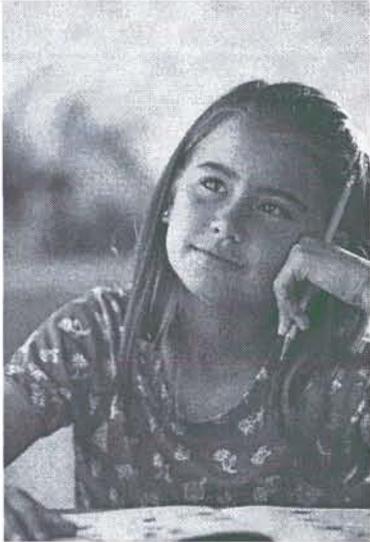
Administrative Solution: MDE's checklist for wind-up and dissolution now includes a standard direction that student records be placed with the ISD, and business records with the authorizer. The practice is working well, and becoming consistent enough to be predictable for those seeking the records later. PSA Boards may negotiate storage fees to be paid up-front to the ISDs for managing the records. As a way of "darkening the dotted line" between ISDs and MDE, recent dialogue between the SBE and ISDs has made explicit many regionally-specific roles ISDs are asked to play on behalf of the state's educational system. ISDs tend to see this record retention as an example of one such role and have, without exception, proved willing to take on this task even in the absence of statutory direction.

Rulemaking authority to set authorizer incentives for PSA quality and standards for suspending authorizing authority

First Issue: The Superintendent of Public Instruction has no rulemaking authority to establish standards that require authorizers to improve the quality of academic performance for the PSAs they authorize.

Administrative Solution: Improving the quality of teaching and learning in Michigan charter schools is a goal shared by MDE and Michigan authorizers. A working partnership that combines the complementary types of authority held by the two entities is proving powerful to accomplish the shared goal. Authorizers' spring 2006 strategic plan includes a commitment to "clear space for new growth in high-quality charter schools by terminating charters that have proven unsuccessful according to contractual criteria." This renewed strategic commitment to improving school quality coincided with MDE's opportunity to redesign

Legislative Recommendations



its federally-funded start-up grant program, with the goal of bringing stronger, more diverse and visionary PSAs to the table when authorizers are ready to entertain charter applications.

The resulting start-up grant program brought to Michigan from the U.S. Department of Education (USDOE) approximately \$7 million per year for 3 years from 2007 to 2010. The redesigned grants differ from previous grants in important ways: Several authorizers have agreed to leave their application windows open between periods in which they are actively considering issuing a charter. This allows many more non-management-company-affiliated community-based charter developers to qualify for federal grant funding by submitting a charter application to an authorizer. From this broader pool of would-be charter designs, the grant competition can select the strongest 10-20 applicants to receive planning grants that will further develop and fine-tune their teaching, learning, and data management methodologies, as well as resolve facility, management, and governance issues.

During the planning grant period, a new requirement for technical assistance will ensure that prospective governance Board members and the development team thoroughly understand the role of an autonomous Board, get a grounding in school budgeting and finance, work with their ISD to ensure compliance with all special education requirements, and prepare to collect and report required data to CEPI. The technical support program will also require/assist grantees to compare their proposed design to nationally recognized designs with demonstrated success in radically improving at-risk student performance, graduation rate, and post-secondary success.

MDE and authorizers will continue administrative efforts to resolve this issue.

Second Issue: The Superintendent of Public Instruction has statutory authority to **suspend an authorizer's power to authorize** if (s)he finds that an authorizer is not exercising adequate oversight. However, the Superintendent has no rulemaking authority to establish standards or criteria by which to act.

Administrative Progress: Within its existing authority, MDE has taken the lead in developing a voluntary "Assurances and Verification" system by which each authorizing entity assures the state that it is fulfilling its statutory oversight responsibility. MDE on-site visits then verify that the systems are operating as described. ***This MDE-authorizer collaboration has established a common core of expectations for authorizer practice.***

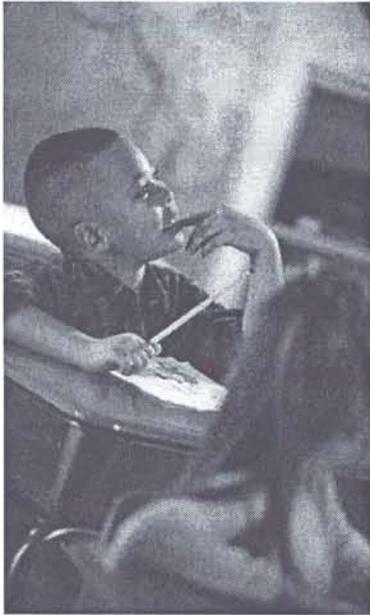


Another example of MDE's leadership occurred when twice within the last two years, PSAs lost their charters from a first authorizer and solicited new charters from a different (and inexperienced) authorizer. The Superintendent **communicated an authorizing expectation** by requiring each potential new authorizer to provide a documented rationale for granting a fresh charter. In addition to all the normal documentation required for a new charter, the Superintendent asked for evidence that the new authorizer had informed itself of the reasons the previous charter had been revoked, had done its own due diligence to form its own conclusions about the facts involved, and had remedied the existing problems in some way. As a result, in one case, the potential new authorizer declined to issue the charter. In the other, the LEA did charter the PSA, but did so by imposing nearly identical conditions to those that would have been required by the old authorizer. No rulemaking authority was required.

Thus, by analogy to "case law," a set of expectations **is being developed** through the Superintendent's administrative actions. **To date the Superintendent has indicated that he** expects authorizers to:

- Establish and consistently utilize oversight systems that ensure compliance with eighteen fundamental statutory requirements for Michigan PSAs;
- Exercise due diligence when considering whether to charter a school whose charter has been rejected by another authorizer, in order to ensure that the continuity of accountability is not interrupted.





In the absence of statutory authority to establish formal criteria, MDE will continue to work situationally in this way with authorizers. The approach depends heavily, however, on voluntary cooperation of all active authorizers. While that collaboration has been productive and consistent to date, should a single authorizer not choose to participate or should a confrontational situation develop, formal criteria would provide a more objective basis for MDE action.

Legislative Recommendation: *MDE recommends that the Legislature assign to MDE the authority to promulgate rules*

Wind-up and Dissolution

The Issue: A PSA charter in Michigan can be held only by a particular type of non-profit corporation – a PSA corporation – which is formed during the authorizing process at the direction of a Michigan authorizer. The authorizer’s ultimate authority with regard to the PSA consists of its ability to terminate the contract. However, once the authorizer exercises its option to end the contract, it loses all legal relationship with the non-profit. It then lacks authority to direct the governing Board of the PSA corporation to wind up its affairs and dissolve the corporation in a timely way. Even well-intentioned PSA Boards have often failed to complete the sometimes lengthy process of liquidating assets, terminating leases, litigating conflicting claims, accounting for public funds in a final audit, and dissolving the no longer active corporation. Further, an ex-PSA Board that has hired an ESP to operate its school cannot rely on that staff to carry out wind-up activities, since the interests of a Board and its ESP diverge sharply as the ESP may become one of the creditors of the Board. A neutral third party is needed to ensure that wind-up activities are pursued effectively and transparently.

Administrative Progress: MDE and the Michigan Council of Charter School Authorizers (MCCSA) have developed a **model intergovernmental agreement**. In the agreement, the PSA Board, the authorizer, and the State Treasurer agree that upon contract termination, a trustee would be appointed and charged with completing wind-up and dissolution in a timely way. Legal review of the draft document is underway, and if this or a modified agreement can be finalized, authorizers could voluntarily incorporate it into their practice. Authorizers would describe their systems for implementing the agreement as a 19th element to the “Assurances and Verification” system. MDE could then verify the practice. Experience to date with trustee-directed wind-ups is encouraging; even when the